# Rapid Concentration “Downstream” in the Food System in Latin America:

## Focus on the Challenges to Small Farms and Firms from the Rise of Supermarkets

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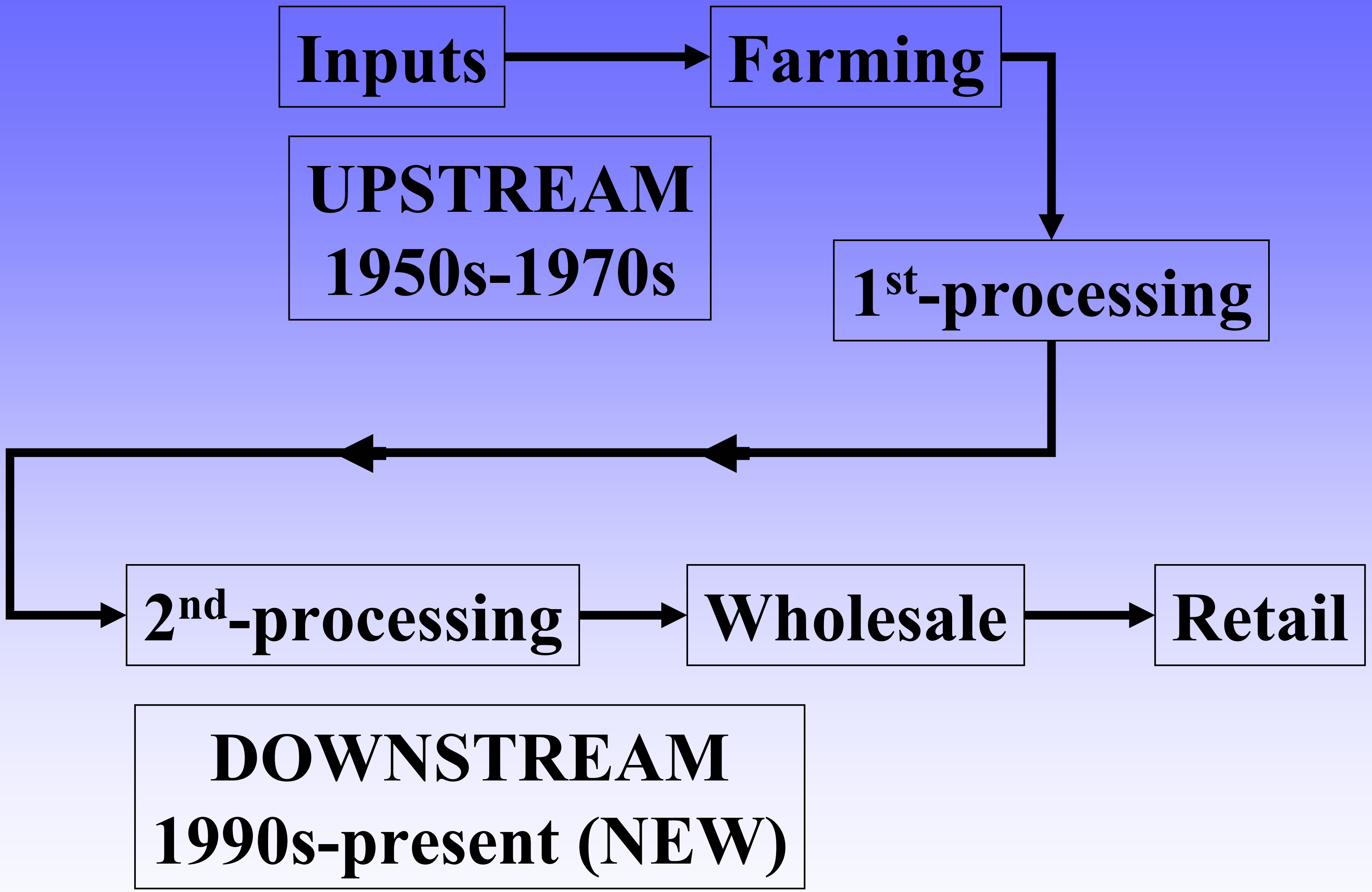
- Based on synthesis of 10 case studies
- Joint work with Julio Berdegue (www.rimisp.CL) and other LAC colleagues

# Punchline #1: FDI “downstream” in the LAC food system in 1990s

- 1980-now = Liberalization of trade ***and*** of FDI
- → flood of FDI DOWNSTREAM in the 1990s
  - U.S. FDI in processed food is 5 times greater than exports in 1995!
  - Supermarkets: Ahold, Carrefour, Walmart
  - Fast-Foods: McDonalds, Burger King, KFC (#400 KFC in Mexico last month)
  - Dairy: Nestle, Parmalat


Inputs
Farming
UPSTREAM
1950s-1970s
1st-processing
2nd-processing
Wholesale
Retail
DOWNSTREAM
1990s-present (NEW)

# Punchline #2: Liberalization + FDI = Rapid Concentration

- U-curve in concentration over 1990s
  - Mid 1980s/1990: concentrated, public, domestic
  - Early 1990s: de-concentration, proliferation of medium private firms
  - Mid 1990s on: RE-concentration, multi-nationalization
- Main mode of FDI: Global firms merge/acquire LAC large and medium firms

# Punchline #3: Supermarkets already important and growing FAST

- Amazing Growth in numbers and share of supermarkets in retail sector
  - Argentina: 17% in 1985 → 70% in 2000 !
  - Brazil: 30% in 1990 → 70% in 2000
  - Mexico: now 50%
  - Costa Rica and El Salvador: 50%
  - Guatemala: now 30% !

- **Pull: rising incomes, urbanization**
- **Push: saturated home markets**
- **Dominos: Crowd out Mom and Pop Stores and Neighborhood markets**
  - **1984-1993: 64,000 small shops close in Argentina (30% drop)**
  - **Surviving specialty stores crowd out small traditional shops**

- Dominos: first and fastest in largest and/or richest countries (Argentina, Brazil, Mexico, Chile, Costa Rica)
  - then in the smaller/poor countries
  - Example: Ahold, Disco, and Santa Isabel: Argentina, then Chile, then Peru
- Dominos: first in big cities, then intermediate cities, then rural towns

- **Dominos: first in rich barrios, then middle income, then poor (changing format as go)**
- **Dominos: BIG buy Medium buy small**
  - **Guatemala: Ahold buys Paiz buys smaller**
- **Rapid concentration of supermarket sector**
  - **Argentina: 9 (7 domestic) → 4 (1 domestic) (with 50%): 1992→1998**
  - **Brazil: 55→ 10 (with 50%): 1994-1999**

# Punchline #4: Downstream concentration BIG challenge to small firms/farms

- Impose PRIVATE STANDARDS (quality and safety)
- Tend toward CONTRACTS not spot market
- Require consistency and volume
- Pay with big lag
- Charge big shelf fees
- Require nice presentation/package
- Source globally and regionally – not necessarily locally

- **The tough conditions of big chains and firms meant little to small farmers/firms**

**… in 1985… but mean A LOT in 2002**

- **Potential opportunity!**
- **BUT tend to favor medium/large farms and firms**
- **Require investments, technologies, and assets: tough on small farms/firms**

# Example: tomatoes for McDonalds-Guatemala: cooperative ASUMPAL

- size/shape + blemishes + safety + consistency
- requires drip irrigation, greenhouses, worker hygiene facilities (hence plumbing in fields) + sheds + plastic crates + truck modifications ➔ $$$$$$
- ASUMPAL goes from 330 members in 2000 to 30 members in 2001 (all the small exit)

# 5. Conclusions

- **Supermarkets and fast-food chains and large processing firms NOW of vast importance to food systems in LAC**
- **Their growth is squeezing out other local options for small firms and farms**
- **But also potential opportunities**
- **Promoting prosperity for the rural poor requires big emphasis on helping small firms/farms deal with this challenge**